

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City, Metro Manila

TWENTIETH (20th) CONGRESS
FIRST REGULAR SESSION

House Bill No. **2736**



Introduced by
Rep. ROBERT NAZAL

AN ACT
ALLOCATING ONE PERCENT (1%) OF THE TOTAL VALUE-ADDED TAX
COLLECTIONS TO A LOCAL GOVERNMENT DEVELOPMENT FUND,
PROVIDING FOR ITS RELEASE TO QUALIFIED LOCAL GOVERNMENT
UNITS, AND FOR OTHER PURPOSES

EXPLANATORY NOTE

This constitutional mandate, reinforced by the Local Government Code of 1991 and the Supreme Court's landmark Mandanas-Garcia ruling, was intended to empower local government units (LGUs) by granting them a greater share of national revenues. Despite these measures, however, many LGUs remain overly reliant on centrally allocated funds and lack meaningful incentives to improve their own revenue-generating capacities or enhance service delivery based on measurable performance.

This bill seeks to institutionalize a Local Government Development Fund (LGDF), equivalent to one percent (1%) of the total annual collections from the value-added tax (VAT), and to allocate said amount to qualified LGUs that demonstrate significant improvement in local fiscal performance. To qualify, an LGU must achieve at least a ten percent (10%) increase in VAT collection performance compared to the preceding fiscal year, as certified by the Bureau of Local Government Finance (BLGF) and validated by the Department of Finance (DOF).

The LGDF shall be used exclusively for developmental purposes, and may only fund programs, projects, and activities (PPAs) identified in the LGU's duly approved Comprehensive Development Plan (CDP). To ensure transparency, a real-time, web-based monitoring and reporting system shall be established for public access, tracking fund releases, utilization, and project outcomes. The bill also mandates the Department of the Interior and Local Government (DILG) to provide technical assistance and capacity-building support to participating LGUs, in partnership with civil society and the private sector, where feasible.

This proposed measure complements Senate Bill No. 405, filed by Senator Panfilo “Ping” Lacson. Together, both versions aim to institutionalize a performance-based, transparent, and equitable mechanism for national-to-local fund transfers, shifting from political discretion to fiscal merit, from dependency to initiative, and from compliance to results.

As Senator Lacson aptly stated, this initiative intends to wean LGUs from dependency on national largesse and promote a new culture of local initiative and accountability.

With the passage of this Act, we take a step closer to a truly empowered local government system - one that rewards effort, supports development from the ground up, and affirms that good governance must begin at the local level.

In view of the foregoing, the immediate passage of this measure is earnestly sought.



Rep. ROBERT NAZAL
Bagong Henerasyon Party-List

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Be it enacted by the Senate and House of Representatives of the Philippines in Congress assembled:

SECTION 1. SHORT TITLE.

This Act shall be known as the “Local Government Development Fund Act of 2025.”

SECTION. 2. DECLARATION OF POLICY.

It is the declared policy of the State to promote genuine local autonomy and fiscal independence by incentivizing the improved tax administration and revenue performance of local government units (LGUs). In pursuit of this objective, the State shall allocate a portion of national Value-Added Tax (VAT) collections to high-performing LGUs to finance development projects, programs, and activities identified in their duly approved development plans. This mechanism is intended to reduce the culture of dependency on central disbursements and foster a results-based, performance-oriented approach to local governance and public service delivery.

SECTION. 3. CREATION OF THE LOCAL GOVERNMENT DEVELOPMENT FUND.

There is hereby created a special fund to be known as the Local Government Development Fund (LGDF), which shall be used exclusively to support qualified LGUs in the implementation of priority development programs and projects, in accordance with their Comprehensive Development Plans (CDPs) and investment programs, and subject to the conditions set forth under this Act.

SECTION. 4. SOURCE AND AMOUNT OF THE FUND.

Beginning Fiscal Year 2026, and every fiscal year thereafter, an amount equivalent to one percent (1%) of the total actual Value-Added Tax collections shall be allocated to the LGDF. The VAT collections shall be determined based on the actual and certified collections by the Bureau of Internal Revenue (BIR) and the Bureau of Customs (BOC) for the third fiscal year immediately preceding the current fiscal year.

The corresponding amount shall be appropriated annually under the General Appropriations Act (GAA) and shall constitute a distinct and identifiable budget item under the Special Purpose Funds. Appropriated LGDF amounts shall not lapse and shall remain available until fully obligated and released to qualified LGUs.

SECTION. 5. ELIGIBLE LOCAL GOVERNMENT UNITS.

Only those provinces, cities, municipalities, and barangays that have attained a minimum ten percent (10%) increase in their respective VAT-related revenue collections for the fiscal year immediately preceding the release of the Fund shall be eligible to receive a share of the Local Government Development Fund (LGDF).

Such increase shall be certified by the Bureau of Local Government Finance (BLGF) based on its official records and validated by the Department of Finance (DOF). The determination of eligibility shall be conducted annually and shall be final unless otherwise overturned by competent authority for manifest error or fraud.

SECTION. 6. RELEASE OF THE FUND.

Upon receipt of certification and validation from the BLGF and DOF, the Department of Budget and Management (DBM) shall automatically release the corresponding LGDF allocation to each qualified local government unit without need of further documentary submissions, subject only to standard budgeting and accounting rules under existing laws and regulations.

The LGDF shall be released directly to the LGU's trust fund account, segregated from its general fund, and recorded accordingly in the LGU's books of accounts.

SECTION. 7. AUTHORIZED USES.

The LGDF shall be utilized exclusively for development purposes, strictly aligned with the LGU's duly approved Comprehensive Development Plan (CDP) and Annual Investment Plan (AIP). Eligible projects, programs, and activities shall include, but not be limited to:

- A. Construction, improvement, or rehabilitation of infrastructure and capital outlay projects, including roads, markets, water supply, and sanitation facilities;
- B. Support for local economic enterprises, livelihood generation, and micro, small, and medium enterprise (MSME) development;
- C. Digital transformation, including investments in e-governance systems, ICT infrastructure, and public digital services;
- D. Projects that enhance climate resilience, environmental sustainability, and disaster risk reduction and management (DRRM); and
- E. Initiatives that improve access to and quality of basic social services such as health, education, nutrition, and housing.

SECTION. 8. PROHIBITED USES.

The Local Government Development Fund (LGDF) shall be utilized strictly and exclusively for the purposes defined in this Act and the LGU's duly approved Comprehensive Development Plan (CDP) and Annual Investment Plan (AIP). Under no circumstance shall the LGDF be used, whether directly or indirectly, for the following:

- A. Personal Services Expenditures

The LGDF shall not be used to cover salaries, wages, allowances, honoraria, bonuses, or any form of compensation or remuneration for elected or appointed officials, employees, consultants, or contract-of-service personnel of the LGU, its instrumentalities, or its partner organizations, regardless of funding source or justification.

- B. Maintenance and Other Operating Expenses (MOOE) Not Directly Attributable to Development Projects

Routine operational expenses such as utilities, supplies, fuel, communication services, office rentals, or any other MOOE items not directly and exclusively linked to a duly approved LGDF-funded project or activity shall be strictly disallowed.

C. Travel, Representation, and Entertainment Expenses

The Fund shall not be used to finance official or personal travel, both domestic and foreign, nor shall it cover representation, meals, accommodation, gifts, tokens, sponsorships, or entertainment-related expenses, whether or not related to project promotion or coordination.

D. Debt Servicing and Non-LGDF Obligations

The LGDF shall not be used to pay for any form of loan amortization, interest payments, arrears, penalties, or any financial liability of the LGU not directly and lawfully incurred in connection with an approved LGDF-funded project.

E. Unprogrammed or Unapproved Expenditures

No part of the Fund shall be disbursed for activities or procurements that are not explicitly stated, itemized, or rationalized in the LGU's approved CDP or AIP. Supplemental or ad hoc projects shall require prior amendment of the AIP and revalidation from the appropriate agency.

SECTION. 9. CAPACITY-BUILDING MECHANISM.

The Department of the Interior and Local Government (DILG), in coordination with the DOF, DBM, and BLGF, shall design and implement a continuing capacity-building and technical assistance program for LGUs aimed at:

- A. Strengthening local fiscal and revenue administration;
- B. Improving project development and implementation capabilities;
- C. Enhancing transparency, participatory governance, and accountability systems; and
- D. Ensuring proper monitoring and reporting of LGDF utilization.

These programs may include training, certification, peer learning exchanges, digital toolkits, and technical audits.

SECTION. 10. MONITORING AND TRANSPARENCY.

The DBM, in collaboration with the DILG and DOF, shall develop, deploy, and maintain a real-time, publicly accessible, web-based LGDF Monitoring System to track:

- A. The allocation and release of LGDF per LGU;
- B. The status of fund utilization and project implementation; and
- C. The overall impact and performance outcomes of LGDF-supported initiatives.

To ensure timely implementation of this requirement, an amount of One Hundred Million Pesos (PhP 100,000,000.00) is hereby appropriated from the LGDF to cover the establishment, maintenance, and continuous upgrading of said system, including hardware, software, and personnel requirements.

SECTION. 11. ACCOUNTABILITY AND SANCTIONS.

Any public official or employee of a local government unit (LGU) or national government agency who commits any of the following acts in connection with the implementation of this Act shall be held accountable in accordance with applicable laws, rules, and regulations:

- A. Falsification or Manipulation of Revenue Data – Knowingly submitting, causing the submission of, or conspiring to submit falsified, inaccurate, misleading, or manipulated data on VAT-related revenues for the purpose of gaining or maintaining eligibility for the Local Government Development Fund (LGDF);
- B. Misuse or Misappropriation of Funds – Directly or indirectly diverting, misusing, misappropriating, or expending LGDF allocations for purposes other than those expressly authorized in this Act or in the LGU's approved Comprehensive Development Plan (CDP) and Annual Investment Plan (AIP);
- C. Obstruction of Oversight Functions – Knowingly obstructing, altering, suppressing, or falsifying monitoring and evaluation reports, or refusing to provide relevant records or information required for transparency, audit, or performance validation under this Act;
- D. Violation of Other Provisions – Committing any act or omission that contravenes any provision of this Act or its implementing rules and regulations.

Any misapplication, diversion, or unauthorized use of the LGDF, whether by commission or omission, shall constitute a violation of this Act and shall render the responsible official or employee administratively, civilly, and criminally liable under existing laws, including but not limited to, Republic Act No. 3019 (Anti-Graft and Corrupt Practices Act), Republic Act No. 7160 (Local Government Code of 1991), Republic Act No. 9184 (Government Procurement Reform Act), and Republic Act No. 10963 (TRAIN Law), where applicable.

The Department of the Interior and Local Government (DILG), in coordination with the Commission on Audit (COA) and the Office of the Ombudsman, shall ensure that mechanisms for reporting, investigation, and enforcement are in place to address any violations of this provision.

SECTION. 12. LEAD IMPLEMENTING AGENCIES.

The Department of Budget and Management (DBM) shall serve as the principal implementing agency of this Act, and shall have authority over fund administration and release.

The DILG, DOF, and BLGF shall provide technical assistance, conduct eligibility certifications and validations, support monitoring and evaluation, and ensure LGU compliance with the provisions herein.

SECTION. 13. APPROPRIATIONS.

The amount necessary for the initial implementation of this Act shall be charged against current and available appropriations of the DBM, DILG, DOF, and BLGF. Thereafter, such sums as may be necessary for the continued implementation of this Act shall be automatically included in the annual General Appropriations Act (GAA).

SECTION. 14. IMPLEMENTING RULES AND REGULATIONS.

Within thirty (30) calendar days from the effectivity of this Act, the DBM, in consultation with the DILG, DOF, BLGF, and relevant stakeholders, shall promulgate the necessary implementing rules and regulations (IRR) for the effective and efficient implementation of this Act.

SECTION. 15. REPEALING CLAUSE.

All laws, executive orders, proclamations, rules, regulations, and other issuances or parts inconsistent with the provisions of this Act are hereby repealed or amended accordingly.

SECTION. 16. SEPARABILITY CLAUSE.

If any provision of this Act is declared invalid or unconstitutional, the provisions not affected thereby shall remain in full force and effect.

SECTION. 17. EFFECTIVITY.

This Act shall take effect fifteen (15) days following its complete publication in the Official Gazette or a newspaper of general circulation.

Approved,